
Management's Discussion and Analysis

Mission and Organizational Structure

Mission. The U.S. Department of Education's (the Department's) mission is *to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access*.

History. The federal government recognized that furthering education was a national priority in 1867, creating a federal education agency to collect and report statistical data. The Department was established as a cabinet-level agency in 1979. For a chronology of education legislation, go to: http://nces.ed.gov/pubs2010/2010013_4.pdf.

Our Public Benefit. The Department is committed to ensuring students develop the skills they need to succeed in school, college, and the workforce, while recognizing the primary role of states and school districts in providing a high-quality education, employing highly qualified teachers and administrators, and establishing challenging content and achievement standards. The Department is also setting high expectations for its own employees and working to improve management practices, ensure fiscal integrity, and develop a culture of high performance. For performance and budget overviews, go to: <http://www2.ed.gov/about/overview/focus/performance.html>.

Our Organization. Education is the smallest Cabinet-level federal agency. The Required Supplementary Stewardship Information section of this report contains a summary statement of offices within the Department. For an interactive organizational chart, go to: <http://www2.ed.gov/about/offices/or/index.html>.

What We Do. The Department engages in five major types of activities: establishing policies related to federal education funding; administering distribution of funds and monitoring their use; providing oversight on data collection and research on America's schools; identifying major issues in education and focusing national attention on them; and enforcing federal laws prohibiting discrimination in programs that receive federal funds. For details, go to: <http://www2.ed.gov/about/what-we-do.html>.

Who We Serve. During school year (SY) 2010–11, America's schools and colleges are serving larger numbers of students as the population increases and enrollment rates rise. As SY 2010–11 gets underway, nearly 49.4 million students attend public elementary and secondary schools. Of these, 34.7 million are in pre-kindergarten through 8th grade and 14.7 million are in grades 9 through 12. An additional 5.8 million students attend private schools.

Expenditures for public elementary and secondary schools will be about \$540 billion for SY 2010–11, excluding capital and interest. The national average current expenditure per student is projected for SY 2010–11 at \$10,792, up from \$10,297 in actual expenditures in SY 2007–08.

In fall 2010, a record 19.1 million students are expected to attend the nation's 2-year and 4-year colleges and universities, an increase of about 3.8 million since fall 2000.

For back-to-school statistics and the sources, please see <http://nces.ed.gov/fastfacts/display.asp?id=372>.

Department of Education FY 2010 Highlights

Civil Rights Enforcement

- Total number of complaints resolved by the Office for Civil Rights in FY 2010 was 6,830, an increase of 11% above the 6,151 complaints resolved in FY 2009.

Freedom of Information Act of 1966 Requests

- Received 2,230
- Processed 1,921

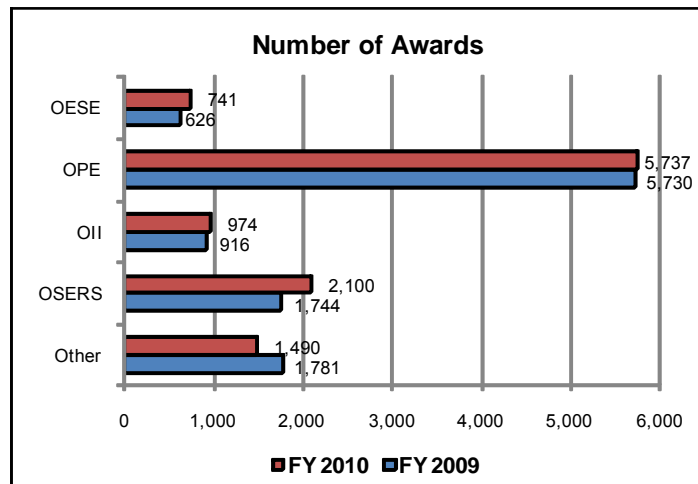
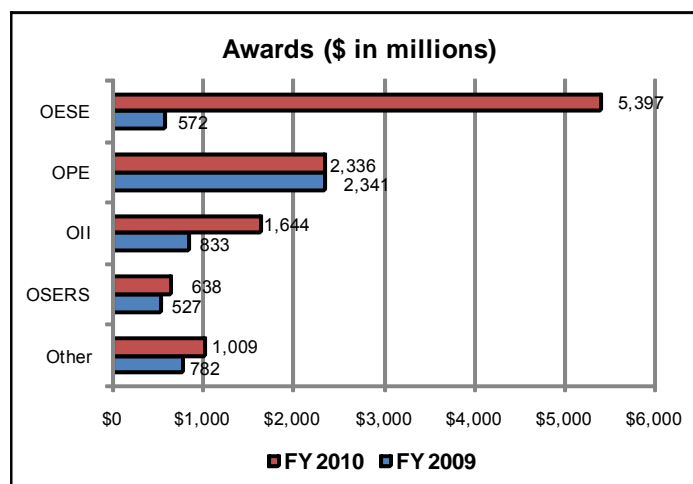
P-12 Reform

- Early learning outreach to 18 states (including DC) and 87 speaking engagements
- 36 states (including DC) have adopted the Common Core State Standards
- 41 states and the District of Columbia are creating comprehensive, statewide longitudinal data systems

Communications

- Responded to 62,015 calls
- Regional staff spoke at more than 150 different events (over 36,400 stakeholders)
- 263,333 Information Resource Center contacts received

Discretionary Grants



OESE = Office of Elementary and Secondary Education.

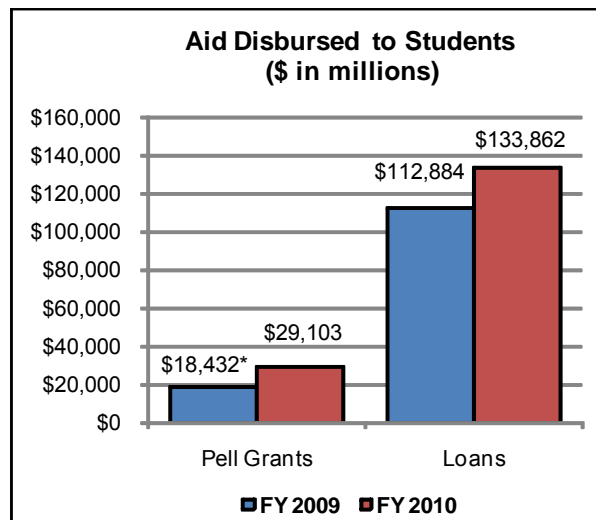
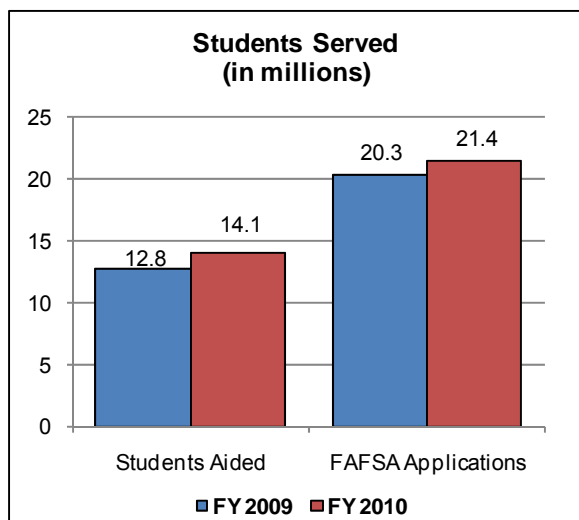
OPE = Office of Postsecondary Education.

OII = Office of Innovation and Improvement.

OSERS = Office of Special Education and Rehabilitative Services.

Other = Institute of Education Sciences (IES), Office of English Language Acquisition (OELA), Office of Safe and Drug-Free Schools (OSDFS), and Office of Vocational and Adult Education (OVAE).

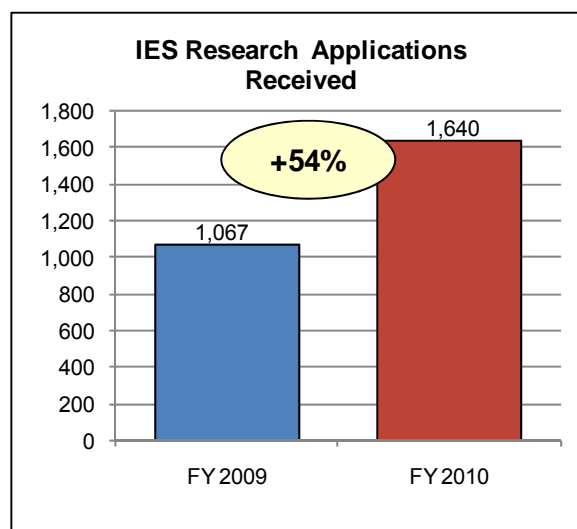
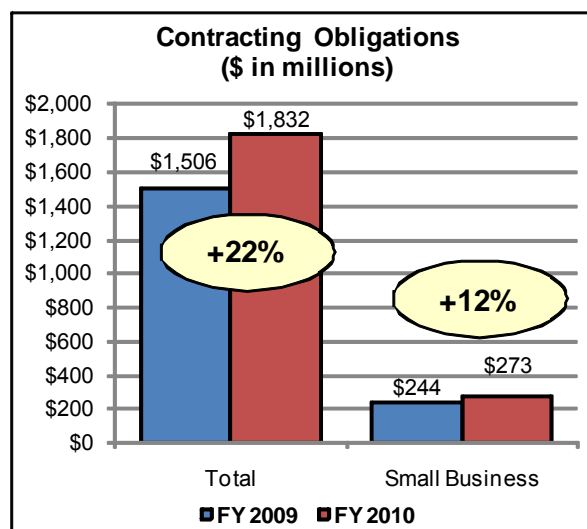
Federal Student Aid (FSA)



* Reflects reported FY 2009 estimate of Pell disbursements; in an FY 2010 update, these disbursements are now estimated at \$18,282.

FY 2010 Hiring Plan

Principal Office	Workforce Planned	Recruitments Submitted	# of Recruitments Pending	Hires on Board	% Hires on Board vs. Workforce Planned	Attrition Rate FY10
All POCs (Excluding FSA)	566	469	93	342	60%	5.68%
FSA	507	489	18	304	60%	5.80%
Grand Total - End of FY10	1073	958	111	646	60%	5.68%



Performance Highlights

National Measures of Success in Education

President Obama, in his first address to Congress, challenged America to meet an ambitious goal for education: by 2020, we will once again have the highest proportion of college graduates in the world. In order to achieve that goal, we must ensure that all children in America receive a world-class education to prepare them to succeed in college and careers. Reaching the President's goal will require comprehensive education reforms beginning early in a child's life and supporting that child through postsecondary education, ensuring each child becomes a lifelong learner who can adapt to changes in the technology-driven workforce of the global economy.

Unfortunately, progress in improving student achievement in reading appears to be stalled. In 2009, for reading, gains in overall average scores seen in earlier years did not continue at grade 4 but did continue at grade 8. The results of the nation's report card, the National Assessment of Educational Progress (NAEP), indicate that while grade 4 performance was higher in 2009 than in 1998, it was not higher than in 2007. Grade 8 performance was the same in 2009 as in 1998.

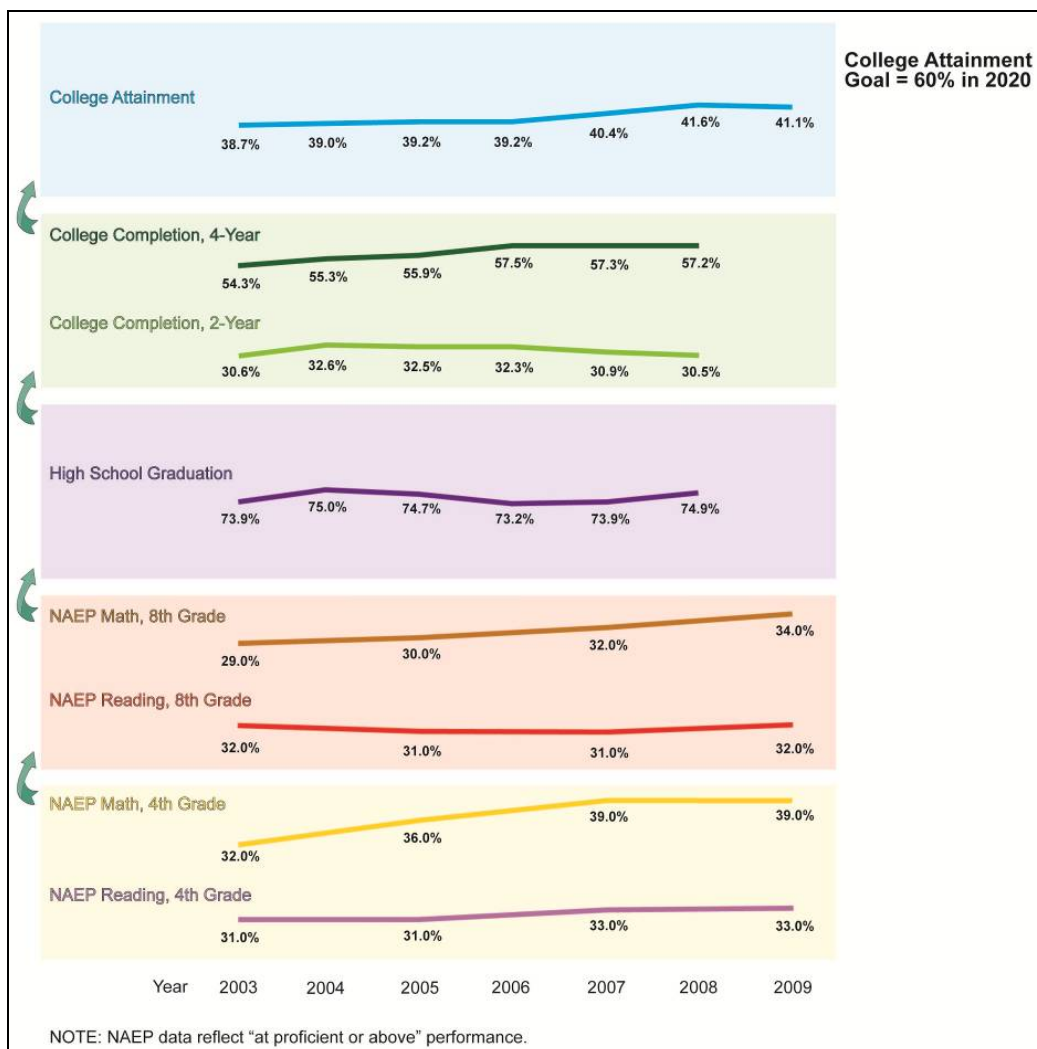
For mathematics, gains in overall average scores also did not continue at grade 4 but did continue at grade 8. While still higher than the scores in the assessment years from 1990 to 2005, the overall average score for fourth-graders in 2009 was unchanged from the score in 2007. The upward trend seen in earlier assessments for eighth-graders continued with a 2-point increase from 2007 to 2009.

We must ensure that students graduate from high school and are ready to succeed in college and careers. Today, our high schools do not adequately prepare students for success in college. As shown in the graphic on the next page, while improving somewhat in 2004, the averaged freshman high school graduation rate has declined moderately in more recent years and continues to remain only in the mid-70 percent range for those students who graduate 4 years after starting the 9th grade.

College completion rates remain unacceptably low. In 2008, for those students who completed a certificate or bachelor's degree at a 4-year institution, only 57.2 percent had graduated within 6 years, up only about 3 percentage points from 2003. For those students who completed their program at a 2-year institution, only 30.5 percent had finished within 3 years in 2008, representing a small decline from 2003, and a more significant decline after an initial increase in the years in between.

In 2009, the percentage of adults 25 to 34 who held an associate degree or higher was only 41.1 percent, a modest increase from 38.7 percent in 2003.

College Attainment, College Completion, High School Graduation, and NAEP Math and Reading Rates, FY 2003–FY 2009



Sources:

College Attainment: U.S. Census Bureau, Current Population Survey (<http://www.census.gov/hhes/socdemo/education/data/cps/index.html>).

College Completion: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) Graduation Rate Survey. (<http://nces.ed.gov/ipeds/>). 2003 Data: "Enrollment in Postsecondary Institutions, Fall 2003; Graduation Rates, 1997 and 2000 Cohorts; and Financial Statistics, Fiscal Year 2003," Table 7 (<http://nces.ed.gov/pubs2005/2005177.pdf>) and "Enrollment in Postsecondary Institutions, Fall 2003; Graduation Rates, 1997 and 2000 Cohorts; and Financial Statistics, Fiscal Year 2003," Table 8 (<http://nces.ed.gov/pubs2005/2005177.pdf>). 2004 Data: "Enrollment in Postsecondary Institutions, Fall 2004; Graduation Rates, 1998 and 2001 Cohorts; and Financial Statistics, Fiscal Year 2004," Table 5 (<http://nces.ed.gov/pubs2006/2006155.pdf>). 2005 Data: "Enrollment in Postsecondary Institutions, Fall 2005; Graduation Rates, 1999 and 2002 Cohorts; and Financial Statistics, Fiscal Year 2005," Table 5 (<http://nces.ed.gov/pubs2007/2007154.pdf>). 2006 Data: "Enrollment in Postsecondary Institutions, Fall 2006; Graduation Rates, 2000 and 2003 Cohorts; and Financial Statistics, Fiscal Year 2006," Table 5 (<http://nces.ed.gov/pubs2008/2008173.pdf>). 2007 Data: "Enrollment in Postsecondary Institutions, Fall 2007; Graduation Rates, 2001 and 2004 Cohorts; and Financial Statistics, Fiscal Year 2007," Table 5 (<http://nces.ed.gov/pubs2009/2009155.pdf>). 2008 Data: "Enrollment in Postsecondary Institutions, Fall 2008; Graduation Rates, 2002 and 2005 Cohorts; and Financial Statistics, Fiscal Year 2008," Table 5 (<http://nces.ed.gov/pubs2010/2010152rev.pdf>).

High School Graduation: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (<http://nces.ed.gov/ccd/pdf/Insdr07gen1a.pdf>, <http://nces.ed.gov/ccd/pdf/Insdr06gen1a.pdf>, <http://nces.ed.gov/ccd/pdf/sdr051bgen.pdf>, http://nces.ed.gov/pubs2009/dropout07/tables/table_13.asp, and <http://nces.ed.gov/pubs2006/2006606rev.pdf>). Data are collected annually. Averaged freshman graduation rate is a Common Core of Data measure that provides an estimate of the percentage of high school students who graduate on time by dividing the number of graduates with regular diplomas by the size of the incoming class four years earlier.

NAEP Math and Reading: National Assessment of Educational Progress (http://nationsreportcard.gov/reading_2009/nat_g4.asp?tab_id=tab2&subtab_id=Tab_1#tabsContainer and http://nationsreportcard.gov/reading_2009/nat_g8.asp?tab_id=tab2&subtab_id=Tab_1#tabsContainer).

The Department's Priority Performance Goals

As part of the fiscal year (FY) 2011 budget development process, senior management of all cabinet-level federal agencies identified a small number of near-term, ambitious, outcome-focused priority performance goals that have high direct value to the public.

Each of the Department's priority goals focuses on a clear, measurable result that it is working to achieve in a 12–24 month time period. The Department's senior management has designated a goal leader and a goal lieutenant to lead progress toward each goal's stated result.

Each goal leader has developed an action plan that charts the path to achieving the goal, along with defined targets for each goal measure, quarterly milestones, and contextual measures to provide insight into causal factors affecting the goal. Quarterly data-driven reviews will enable goal leaders to analyze performance data to guide agency action. Agencies will provide quarterly progress updates to the Office of Management and Budget (OMB).

The priority goals will contribute to accomplishment of long-term strategic goals and the agency's mission. The goals are included in the agency's strategic planning process.

The Department's priority goals are:

- College- and Career-Ready Standards: World Class College- and Career-Ready Standards in which all states collaborate to develop, and adopt internationally benchmarked college- and career-ready standards.
- Evidence-Based Policy: Measuring Effectiveness and Investing in What Works to implement a comprehensive approach in using evidence to inform the Department's policies and major initiatives to further decision-making and program improvement.
- Effective Teaching: World-Class Teaching and Learning to increase the number of highly effective teachers of low income and minority students by 200,000 to teach in hard-to-staff subjects and ensure that all states have in place comprehensive teacher evaluation systems.
- Struggling Schools Reform: to identify 500 of the persistently lowest achieving schools as national models that are initiating high-quality intensive reforms to improve student achievement.
- Data-Driven Decisions: Improved Achievement and Decision-Making through Statewide Data Systems to have all states implement comprehensive statewide longitudinal data systems linking student achievement data, teacher performance data, higher education data, and workforce data.
- Simplified Student Aid: Efficient and Effective Delivery of Student Loans to enable all participating higher education institutions and loan servicers ready to deliver federal student loans efficiently and effectively through simplified applications.

For more information on our priority goals, please go to <http://www.whitehouse.gov/omb/budget/fy2011/assets/management.pdf>.

Challenges Linking Program Performance to Funding

Linking performance results, expenditures, and budget for Department programs is complicated. Most of the Department's funding is disbursed through grants and loans. Only a portion of a given fiscal year's appropriation is available to state, school, organization, or student recipients during the fiscal year in which the funds are appropriated. The remainder is available at or near the end of the appropriation year or in a subsequent year.

Funds for competitive grant programs are generally available when appropriations are passed by Congress. However, the processes required for conducting grant competitions often result in the award of grants near the end of the fiscal year with funding available to grantees for future fiscal years.

Therefore, program results cannot be attributed solely to the actions taken related to FY 2010 funds but to a combination of funds from across several fiscal years, as well as state and local investments, and many external factors, including economic conditions. Furthermore, the results of some education programs may not be apparent for several years after the funds are expended. In addition, results may be due to the effects of multiple programs.

Summary of Performance Results

During FY 2010, the Department drafted a new strategic plan and has subjected it to an extensive review process, which was ongoing at the end of FY 2010. As of September 30, the Department's performance continued to be measured by the *2007–2012 Strategic Plan*.

There are 81 performance measures in the *2007-2012 Strategic Plan* measuring student achievement, teacher quality, school environment, preparation for college, and college access and attainment, as well as selected measures of the Department's operations.

Because most of our grantees are unable to report in the same fiscal year in which they were funded and because compilation adds time as well, most FY 2010 data will not be available until later during FY 2011. In FY 2010, the Department met or exceeded targets for 2 measures (2.5 percent), did not meet but showed improvement for 0 (0 percent) measures, did not meet 7 (8.6 percent), and is awaiting data for 59 measures (72.8 percent). The remaining 13 measures (16.1 percent) have no targets or data for FY 2010.

In FY 2009, the year with the most available data, the Department met or exceeded targets for 25 measures (31 percent), did not meet but showed improvement for 26 (32.1 percent), did not meet 14 (17.2 percent), and is awaiting data for 10 measures (12.3 percent). The remaining 6 measures (7.4 percent) have no targets or data for FY 2009.

As reported in the [FY 2009 Annual Performance Report](#), in FY 2008, the Department met or exceeded targets for 31 measures (38.3 percent), did not meet but showed improvement for 26 measures (32.1 percent), did not meet 11 measures (13.6 percent), and was awaiting data for 7 measures (8.6 percent). The remaining 6 measures (7.4 percent) had no targets or data for FY 2008.

Accomplishments for FY 2010

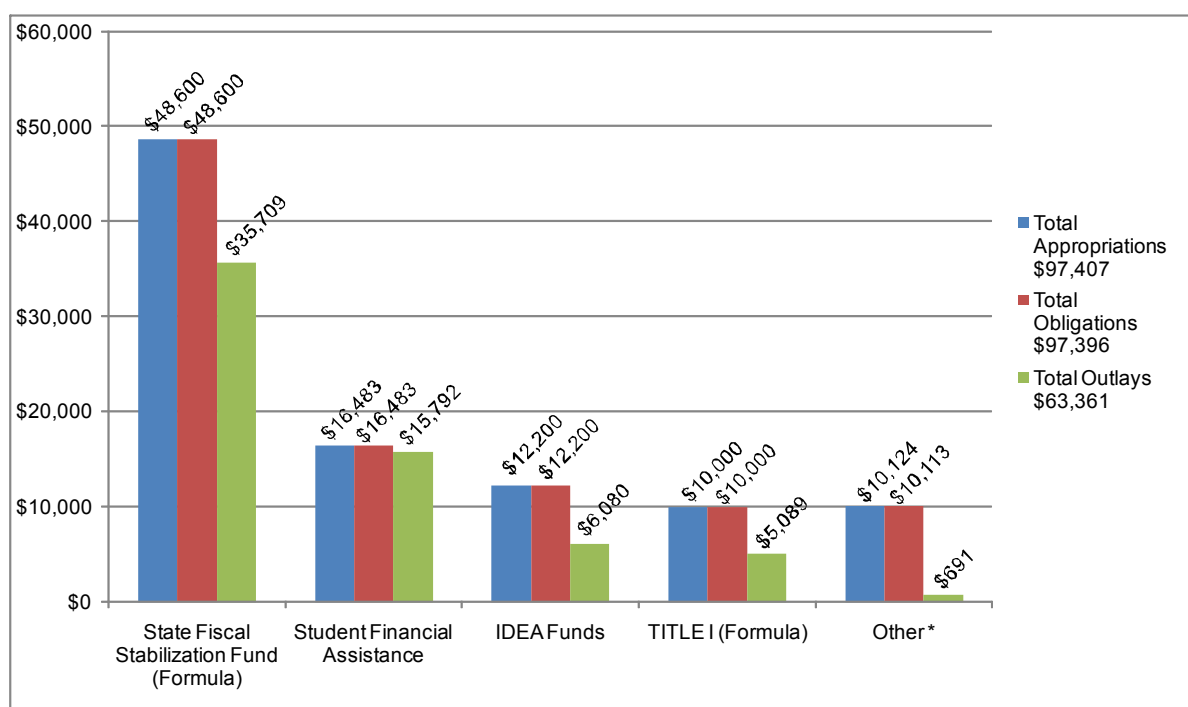
The American Recovery and Reinvestment Act of 2009

Overview

The *American Recovery and Reinvestment Act of 2009 (Recovery Act)* was signed into law by President Barack Obama on February 17, 2009. It is an unprecedented effort to jumpstart the economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges so that the nation can thrive in the 21st century. To see how *Recovery Act* funds are helping individual states, visit <http://www.ed.gov/policy/gen/leg/recovery/state-fact-sheets/index.html>.

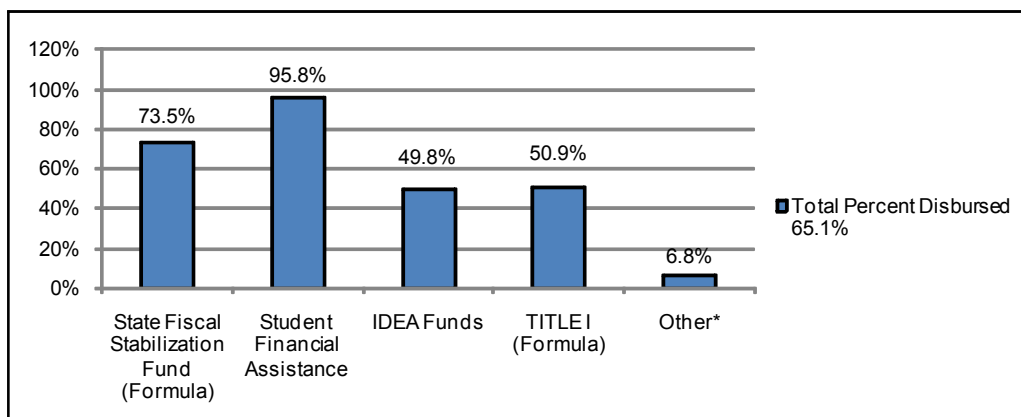
To learn more about the programs the Department administers under the *Recovery Act*, visit <http://www.ed.gov/recovery>.

Recovery Act Funding Summary As of 09/30/10 (Dollars in Millions)



* The Other category includes funds for Impact Aid, Rehabilitative Services and Disability Research, School Improvement Programs, Higher Education, Investing in Innovation, Race to the Top, Institute of Education Sciences, Innovation and Improvement, Student Aid Administration, School Improvement Grants, and Office of Inspector General.

Percentage of Recovery Act Funding Disbursed As of 09/30/10 (Cumulative Outlays as a Percent of Cumulative Obligations)

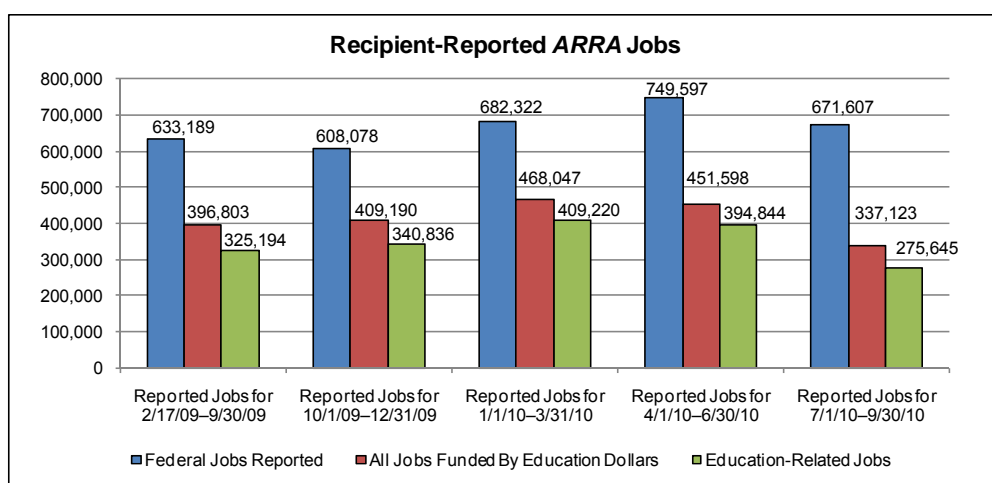


* The Other category includes funds for Impact Aid, Rehabilitative Services and Disability Research, School Improvement Programs, Higher Education, Investing in Innovation, Race to the Top, Institute of Education Sciences, Innovation and Improvement, Student Aid Administration, School Improvement Grants, and Office of Inspector General.

Recovery Act Recipient Reporting

Through a nationwide data collection process the *Recovery Act* requires recipients to submit reports on the use of the funding, and estimates on the number of jobs created and retained. The Department is firmly committed to the success of the reporting process and has devoted considerable resources to this effort.

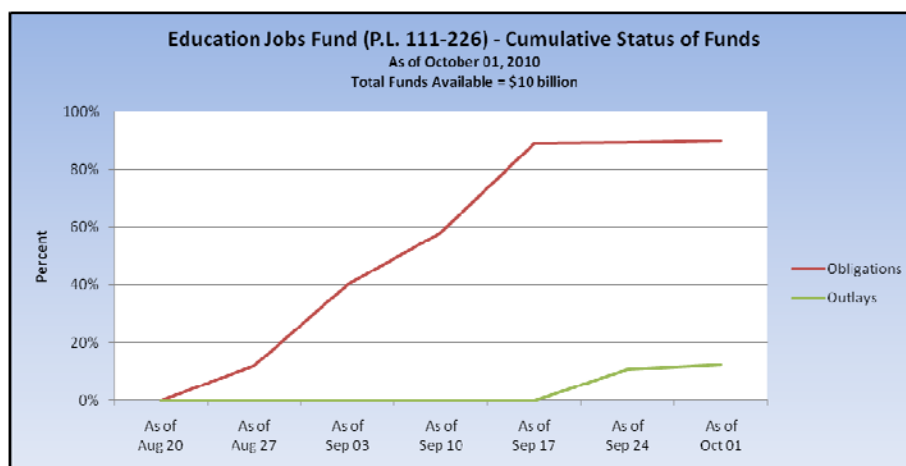
For the quarter ending September 30, 2010, grant recipients again reported that over 275,000 education jobs, such as teachers, principals, librarians, and counselors, were saved or created with *Recovery Act* funding. In total, the Department funding supported over 300,000 positions, including corrections officers, public health personnel, and construction workers.



For more information on governmentwide recipient reporting, visit:
<http://www.recovery.gov/Transparency/RecipientReportedData/Pages/RecipientLanding.aspx>.

Education Jobs Fund

The Education Jobs Fund (Ed Jobs) program is a new federal program that provides \$10 billion in assistance to states to save or create education jobs for the 2010–11 school year. Jobs funded under this program include those that provide educational and related services for early childhood, elementary, and secondary education.



Ongoing Initiatives in Federal Student Aid

The Student Aid and Fiscal Responsibility Act

On March 30, 2010, the President signed the Health Care and Education Reconciliation Act, which included the Student Aid and Fiscal Responsibility Act (SAFRA Act), requiring that all new Federal Stafford, PLUS, and Consolidation loans be made through the William D. Ford Federal Direct Loan Program beginning July 1, 2010.

FSA successfully supported the transition of approximately 2,500 schools to the Direct Loan Program, almost doubling the number of participating schools; provided Direct Loan Program training to almost 5,200 financial aid professionals at the annual Fall Conference; processed over 10 million promissory notes, a 300 percent increase over the previous year; and supported the origination of over 19 million Direct Loans, a 176 percent increase in originations compared to the 2009–10 award year. As of September 30, 2010, 98 percent of domestic schools that had participated in the federal student loan programs in the previous two years had successfully originated a Direct Loan, and no school wishing to participate has been unable to do so.

For more information on the Federal Student Aid office, go to:

<http://www2.ed.gov/about/offices/list/fsa/index.html?src=oc>

Free Application for Federal Student Aid Simplification

In FY 2009, the President called for all Americans to seek at least one year of postsecondary education.¹ FSA's response to this charge was to improve access to a

¹ <http://www.whitehouse.gov/issues/education/>

college education by making the Free Application for Federal Student Aid (FAFSA) easier to complete. FSA continued these efforts during FY 2010. Specifically, FSA implemented an improved 2010–11 FAFSA that utilizes enhanced skip logic and the expanded use of data provided early in the application. Applicants are now presented with fewer questions and a more customized application process. This improved version resulted in a simpler experience for applicants. FSA began to coordinate with the Internal Revenue Service (IRS) to allow some applicants to import their tax form data directly into the FAFSA. Of the almost 900,000 applicants and their parents eligible to transfer data from the IRS, over 30 percent used this new functionality.

Ensuring Continued Access to Student Loans Act of 2008

Beginning in August 2008, the Department implemented a number of programs authorized under the *ECASLA* to ensure credit market disruptions did not deny eligible students and parents access to federal student loans for the 2008–09 academic year. The *ECASLA* authority, which originally expired on September 30, 2009, was subsequently extended through September 30, 2010, to administer the Loan Participation Purchase Program and Loan Purchase Commitment Program. The Asset-Backed Commercial Paper (ABCP) Conduit Program purchase option remains active until January 2014.

As of September 30, 2010, the Department has supplied approximately \$107 billion to the lending market, students, and families through the various *ECASLA* programs. Programs authorized under *ECASLA* are summarized below:

Loan Participation Purchase Program

Under this program, lenders accessed capital to make new loans by selling the Department participation interests in eligible FFEL loans. Participation interests on loans made for the 2008–09 academic year had to have been redeemed, with interest, by lenders no later than October 15, 2009, either in cash or by selling the underlying loans to the Department; for loans made for academic year 2009–10, the deadline for redemption is October 15, 2010. For the 2008–09 loan period, the Department purchased over \$33 billion in participation interests. As part of the process of redeeming the participation interests, \$31 billion of those underlying loans were later sold to the Department. As of September 30, 2010, the Department had purchased over \$38 billion in participation interests for the 2009–10 loan period. When the 2009–10 loan period ended October 15, 2010, participating lenders had sold over \$37 billion of those underlying loans to the Department as part of the process of redeeming the participation interests.

Loan Purchase Commitment Program

Under this program, lenders accessed capital to make new loans by directly selling the Department eligible FFEL loans. For the 2008–09 loan period, a total of over \$48 billion in loans was sold to the Department, \$31 billion from the Loan Participation Purchase Program and \$17 billion directly. As of September 30, 2010, for the 2009–10 loan period, over \$33 billion in loans had been sold to the Department, with nearly \$12 billion from the Loan Participation Purchase Program and \$21 billion directly. When the 2009–10 program ended October 15, 2010, participating lenders sold approximately \$60 billion of FFEL loans to the Department, including approximately \$37 billion from the Loan Participation Purchase

Program, and approximately \$23 billion directly. It is estimated that the 2009–10 volume accounts for approximately 95 percent of the total FFEL Program loans made for the period.

ABCP Conduit Program

The ABCP Conduit Program was developed to provide additional liquidity to support new lending. Under this program, which began operations in mid-2009, the Department entered into forward purchase commitments with a conduit. The conduit issues commercial paper backed by qualifying student loans made between October 1, 2003 and September 30, 2009. If no other financing is available to retire this paper as it matures, the Department commits to provide the needed funds by purchasing the underlying student loans. Lenders were able to place loans into the conduit until June 30, 2010. By that time, a total of 25 lenders had participated, and backed by their loans, the conduit issued a total of \$41 billion in commercial paper. Under the Put Agreement with the conduit, the Department purchases loans subject to the occurrence of certain events. As of September 30, 2010, the Department had purchased about \$0.5 billion in delinquent loans from the conduit. The conduit has not yet put any other loans to the Department. The option to sell loans to the Department ends January 2014. The ABCP Conduit Program is the single remaining active *ECASLA* program.

Innovation

Race to the Top

During FY 2010, the Department awarded 12 Race to the Top grants, expected to directly affect 13.6 million students and 980,000 teachers in 25,000 schools in Delaware, Florida, Georgia, Hawaii, Maryland, Massachusetts, New York, North Carolina, Ohio, Rhode Island, Tennessee, and the District of Columbia. These grants reward states that are leading the way in comprehensive, coherent, statewide education reform in key areas:

- adopting standards and assessments that prepare students to succeed in college and the workplace;
- building data systems that measure student growth and success, and inform teachers and principals how to improve instruction; and
- recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most.

<http://www2.ed.gov/programs/racetothetop/index.html>

To provide ongoing feedback to teachers during the course of the school year, measure annual student growth, and move beyond narrowly-focused bubble tests, the Department awarded two groups of states grants to develop a new generation of tests. The tests will assess students' knowledge of mathematics and English language arts from third grade through high school.

<http://www2.ed.gov/programs/racetothetop-assessment/index.html>

Investing in Innovation Fund

The Department made grant awards to 49 applicants from a pool of nearly 1,700. The Investing in Innovation Fund, established under the *Recovery Act*, provides funding to support local educational agencies (LEAs) and nonprofit organizations in partnership with

one or more LEAs or a consortium of schools. The purpose of this program is to provide competitive grants to applicants with a record of improving student achievement and attainment in order to expand the implementation of, and investment in, innovative practices that are demonstrated to have an impact on improving student achievement or student growth, closing achievement gaps, decreasing dropout rates, increasing high school graduation rates, or increasing college enrollment and completion rates.

<http://www2.ed.gov/programs/innovation/index.html>.

Teacher Incentive Fund

In FY 2010, the Department awarded in Teacher Incentive Fund (TIF) grants to states, school districts, nonprofit organizations, and institutions of higher education to develop and implement performance-based teacher and principal compensation systems in high-need schools. The winning applicants represent rural and urban school districts, as well as nonprofit groups and state education organizations from 27 states.

The TIF program seeks to strengthen the education profession by rewarding excellence, attracting teachers and principals to high-need schools, and providing all teachers and principals with the feedback and support they need to succeed.

<http://www2.ed.gov/programs/teacherincentive/index.html>.

State Fiscal Stabilization Fund

The State Fiscal Stabilization Fund (SFSF) provides resources for states to advance student-focused education reforms from early learning through postsecondary education, including: college- and career- ready standards and high-quality, valid, and reliable assessments for all students; development and use of pre-K through post-secondary and career data systems; increasing teacher effectiveness and ensuring an equitable distribution of qualified teachers; and turning around the lowest-performing schools.

State Fiscal Stabilization Fund Phase II awards continued through FY 2010, with the states and the District of Columbia receiving a portion of stabilization funds totaling \$11.5 billion.

<http://www2.ed.gov/policy/gen/leg/recovery/factsheet/stabilization-fund.html>.

High School Graduation Initiative

The U.S. Department of Education's High School Graduation Initiative supports activities such as early warning systems designed to identify students at risk of dropping out, rigorous academic programs and support services to engage students and implement dropout prevention, credit recovery programs, and targeted re-engagement programs that identify out-of-school youth and encourage them to reenter school. The Initiative targets high schools with high dropout rates and middle schools that feed into schools with high dropout rates. In FY 2010, 29 states and districts were awarded \$46.6 million under the High School Graduation Initiative.

<http://www2.ed.gov/programs/dropout/index.html>.

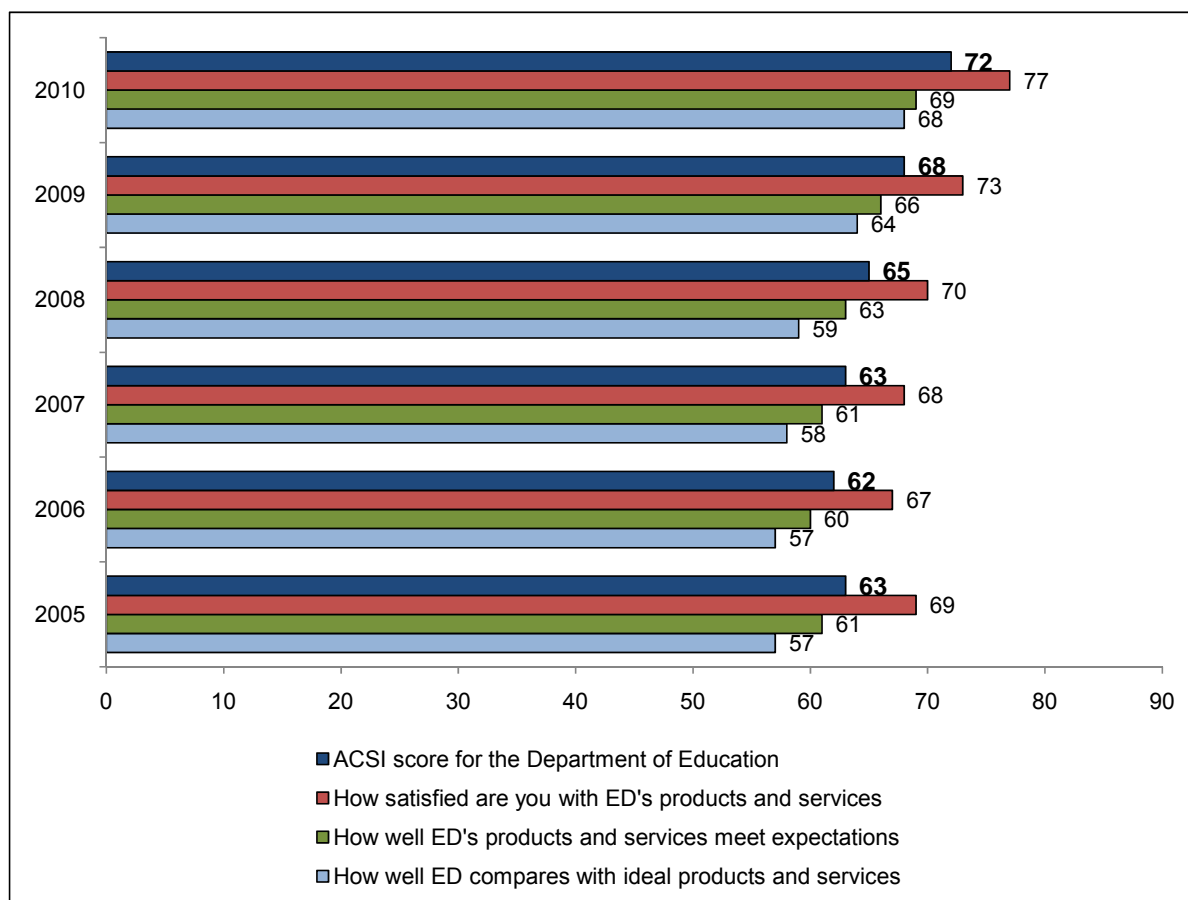
Customer Satisfaction With the Department of Education

The American Customer Satisfaction Index (ACSI) is the national indicator of customer evaluations of the quality of goods and services, and is the only uniform benchmarking measure of customer satisfaction across government agencies and private industry. The customer satisfaction index is a weighted average of three questions that measure overall satisfaction, satisfaction compared to expectations, and satisfaction compared to an "ideal" organization.

In FY 2010, the Department transitioned to a survey that focused exclusively on metrics of satisfaction among its grantees in order to evaluate program performance and to align with metrics of customer satisfaction in its Organizational Assessment. A total of 15 Department programs participated in the FY 2010 Grantee Satisfaction Survey. This year, the Department received its biggest gain in satisfaction with a score of 72, placing it 3 points above the current federal government average of 69. Grantee satisfaction with the Department's services continues its upward trend with a 2-point improvement in 2008, a 3-point improvement in 2009, and a 4-point improvement in 2010 over the previous year. For complete information, see the full report at

<http://www2.ed.gov/about/reports/annual/gss/index.html>.

**Customer Satisfaction Index
2005–2010**



Forward Looking Initiatives

Implementation of Changes in Federal Student Aid

The *SAFRA Act*, which was enacted as part of the *Health Care and Education Reconciliation Act of 2010*, ended the origination of new FFEL loans after June 30, 2010. This means that students previously served by the FFEL Program now receive loans under the Direct Loan Program. The Department's challenge has been to expand its capacity to originate and service the increased Direct Loan volume; train and monitor schools new to the program; and continue oversight of FFEL lenders and guaranty agencies that service the outstanding portfolios. The Department has taken actions to ensure a smooth transition, including providing outreach and technical support to schools, enhancing the key information systems, contracting with additional loan servicers, hiring additional staff, and developing contingency plans.

Over the longer term, there are opportunities for FSA to improve its rapid-response capabilities. First, FSA will further develop its ability to anticipate changes by having an ear to the ground in the marketplace, at schools, and in policy discussions. Second, FSA will improve its resourcing model to ensure that it has highly capable personnel and vendors who are available to respond to unforeseen events.

The growth in the government held Direct Lending portfolio will require FSA to procure broader support from private and nonprofit entities to service outstanding Direct Loans. In addition to Direct Loan origination and servicing, FSA will need help reaching out to customers and promoting financial literacy.

The Department has taken contractual actions to expand the Direct Loan Program's capacity to both originate and service the increased loan volume, including contract monitoring practices and appropriate system testing to ensure that systems perform adequately under increased processing requirements.

Data Quality and Reporting

The Department, its grantees, and subrecipients must have controls in place to ensure that accurate, reliable data are reported. Data are used by the Department to make funding decisions, evaluate program performance, and support management decisions. Reported data provides transparency and allows the public to see how funds are being spent.

State educational agencies (SEAs) collect data annually from local educational agencies (LEAs). The Department has identified a number of weaknesses in the quality of its reported data and is recommending improvements at the SEA and LEA levels to establish adequate controls over data accuracy and reliability and to develop consistent data definitions and terminology. The Department continues to provide guidance and clarify requirements through the development of consistent definitions for data terms to enhance reporting accuracy. The Department recommends that the *General Education Provisions Act*, which applies to data reporting requirements for grant applicants, be amended to require management certifications of the validity and reliability of submitted data, along with assurances that the systems maintaining the data have adequate controls in place to ensure accuracy and comparability of data that are reported to the public, Congress, and the American people.

Oversight and Monitoring

The Department is committed to effective oversight and monitoring of programs and operations to ensure that funds are used for the purposes intended, that programs are achieving goals and objectives, and that the Department is obtaining the products and level of services for which it has contracted. The complexity of factors for this initiative include the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on the students and taxpayers.

Four areas are highlighted for action:

For FSA program participants, the Department will improve oversight and monitoring, risk assessment, and control activities including audits of loan eligibility, program reviews at guaranty agencies, and identification of improper payments for recovery.

For distance education, the Department has initiated program reviews at high-risk schools based on risk indicators and schools identified as participating in federal aid programs that may not be complying with program requirements, including schools offering distance education, which have had recent, significant increases in enrollment numbers and funding.

For grantees, the Department is developing financial monitoring training for program staff, exploring the establishment of a dedicated group of financial monitoring experts, evaluating alternatives for improving information sharing about monitoring, and developing a technical assistance plan and training curricula to provide enhanced guidance and training to state and local officials.

For contractors, the Department is implementing a procedure to monitor all new and existing contracts and to develop a training program reinforcing the Department's contracting processes, applicable laws, and regulations. Program offices were directed to implement immediate steps and take personal responsibility for ensuring that contracts are awarded properly and effectively monitored.

Information Technology Security

The Department will continue to address security and control weaknesses disclosed in audit reports or identified in internal assessments. The Department is working internally and partnering with other government agencies to address identified security challenges.

The Department has:

- revised its Incident Handling Procedures Handbook and its online security awareness training to address actions employees should take regarding a variety of incident scenarios;
- developed and published a Plan of Action and Milestones Guide to set forth the process for handling system vulnerabilities; and
- adopted Federal Student Aid's Operational Vulnerability Management System as the departmental standard for collection of information on all systems in the Department's

FISMA reportable inventory, including a central repository for all reported incidents, as well as tracking and auditing functions.

The Department has entered into an interagency agreement for certification and accreditation support services with the Federal Aviation Administration's Enterprise Services Center, which has begun re-certifying existing systems and certifying new systems in the Department's inventory in accordance with federal standards, including Privacy Impact Assessments for any system that stores, processes, or transmits personally identifiable information.

The Department has participated in Einstein, an intrusion detection system developed by the Department of Homeland Security that monitors government network gateways, as well as in a shared services agreement with the Federal Aviation Administration's Cyber Security Management Center; and is using National Institute Standards and Technology guidelines and recommendations for server baseline security configurations.

Implementation of these actions going forward will support governmentwide security and enhance awareness within the Department.

Data Privacy Safeguards

The Department will continue to build a robust privacy safeguards program with a culture of responsibility, accountability, and transparency in protecting personal data of the millions of individuals, including students and their parents. The Department is working internally and partnering with other government agencies to adopt governmentwide best practices and to implement policies and procedures that strengthen the public's trust.

The Department has:

- prepared revisions to its privacy data external notification policies and procedures that will simplify and expedite its analysis of potential risk of harm to affected individuals, enabling more efficient and accurate notification, as appropriate, to affected individuals, including the media and Members of Congress.
- launched two major initiatives to heighten the visibility of privacy protection requirements and to strengthen employee and contractor awareness and knowledge: 1) an aggressive communications and outreach program; and 2) an expanded training program of mandatory and position-specific training.

Management Challenges

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the Department. Through its audits, inspections, investigations, and other reviews, OIG continues to identify areas of concern within the Department's programs and operations, and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires OIG to identify and summarize the most significant management challenges facing the Department each year.

Last year, OIG reported three management challenges: the *Recovery Act*, student financial assistance (SFA) programs, with a focus on the *ECASLA*; and information security and management. All three have been updated as challenges for FY 2011, and Data Quality and Reporting, previously a subarea, is presented as a separate challenge. The FY 2011 management challenges are:

- Implementation of New Programs/Statutory Changes, including the *Recovery Act* and changes to the SFA loan programs;
- Oversight and Monitoring, including SFA program participants, distance education, grantees, and contractors;
- Data Quality and Reporting, including program data and *Recovery Act* reporting requirements; and
- Information Technology Security.

The Executive Summary of Management Challenges for FY 2011 is included in the Other Accompanying Information section of this report and the full report is published by the Department's Office of Inspector General. To view the full report, go to: <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.

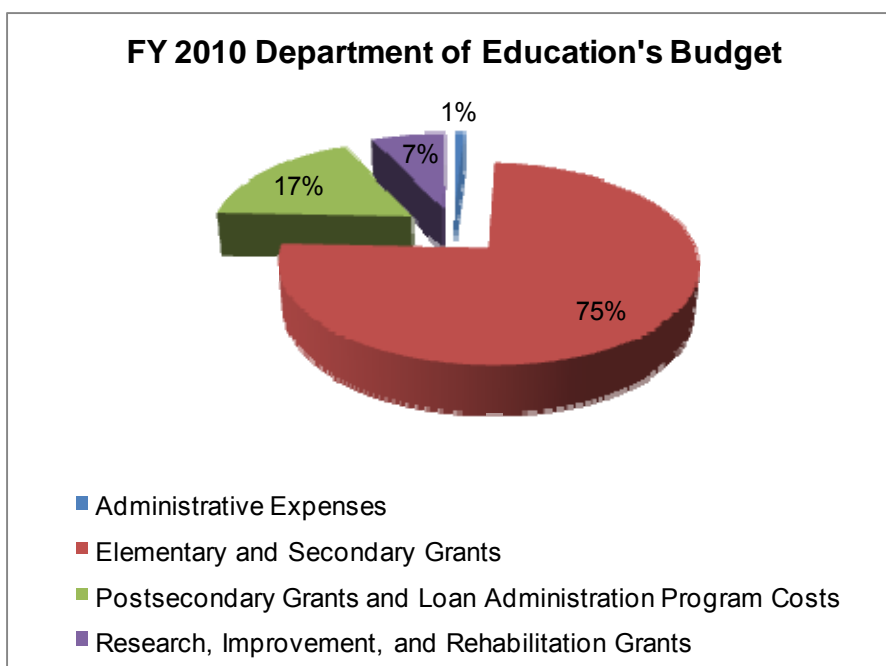
Financial Highlights

The Department consistently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operation. For the ninth consecutive year, the Department achieved an unqualified (clean) opinion from independent auditors on the annual financial statements. Since 2003, the auditors have found no material weaknesses in the Department's internal control over financial reporting. In accordance with OMB's Circular No. A-123, *Management's Responsibility for Internal Control*, the Department continues to test and evaluate findings and risk determinations uncovered in management's internal control assessment.

Sources of Funds

The Department managed a budget in excess of \$63 billion during FY 2010, of which 75 percent supported elementary and secondary education grant programs. Postsecondary education grants and administration of student financial assistance accounted for 17 percent, including loan program costs that helped almost 14 million students and their parents to better afford higher education during FY 2010. An additional 7 percent went toward programs and grants encompassing

research, development, and dissemination, as well as vocational rehabilitation services. Administrative expenditures were less than 1 percent of the Department's appropriations.



Nearly all of the Department's non-administrative appropriations support three primary lines of business: grants, guaranteed loans, and direct loans. The original principal balances of the Federal Family Education Loan (FFEL) Program guaranteed loans and William D. Ford Federal Direct Loan (Direct Loan) Program loans, which compose a large share of federal student financial assistance, are funded by commercial banks and borrowings from the Treasury, respectively. Effective July 1, 2010, no new student loans will be made under the FFEL Program. However, if the first disbursement of a FFEL loan was made by a FFEL lender on or before June 30, 2010, that lender is obligated to make subsequent disbursements after June 30, 2010. As of the end of September 2010, the total principal balance of outstanding guaranteed loans held by lenders was approximately \$390 billion. The government's estimated maximum exposure for defaulted FFEL guaranteed loans was approximately \$382 billion.

The Department's four largest grant programs are SFSF (a one-time appropriation under the *Recovery Act*), Title I grants for elementary and secondary education, Pell Grants for postsecondary financial aid, and Special Education Grants to States under the *Individuals with Disabilities Education Act*.

The *Ensuring Continued Access to Student Loans Act of 2008 (ECASLA)* authorized the Secretary to purchase or enter into forward commitments to purchase FFEL loans. The Department has implemented three activities under this temporary loan purchase authority. These activities are: (1) loan purchase commitments under which the Department agrees to purchase loans directly from FFEL lenders; (2) loan participation interest purchases in which the Department purchases participation interests in FFEL loans; and (3) an Asset-Backed Commercial Paper (ABCP) Conduit program in which the Department enters into a forward commitment to purchase FFEL loans from a student loan-backed conduit, as needed, to allow the conduit to repay short-term liquidity loans used to refinance maturing commercial paper.

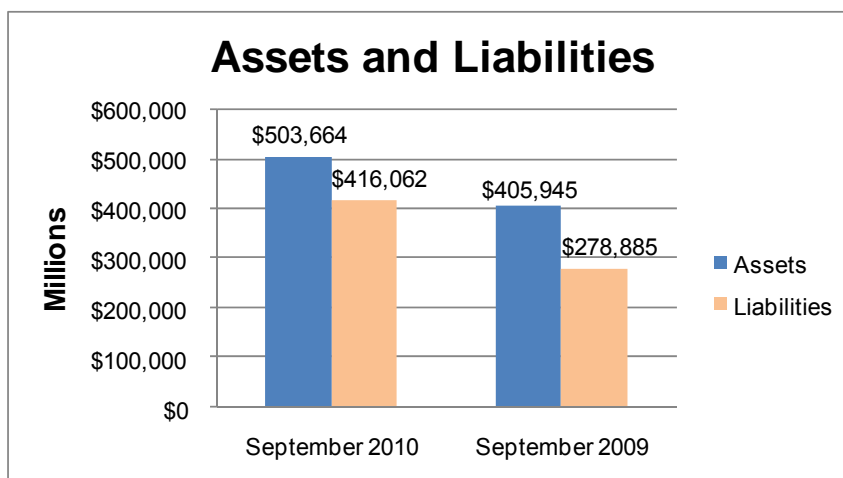
The Direct Loan Program, created by the *Student Loan Reform Act of 1993*, provides Federal loans directly to students. This program uses Treasury funds to provide loan capital directly to eligible undergraduate and graduate students and their parents through participating schools. These schools then disburse loan funds to students. As of September 30, 2010, the value of the Department's Direct Loan portfolio was \$228.2 billion.

Financial Position

The Department's financial statements are prepared in accordance with established federal accounting standards, as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and are audited by the independent accounting firm of Ernst & Young, LLP. The audit is overseen by the OIG. Financial statements and footnotes for FY 2010 appear on pages 31–77. An analysis of the principal financial statements follows.

Balance Sheet. The Balance Sheet presents, as of a specific point in time, the recorded value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department. The Balance Sheet displayed on page 31 reflects total assets of \$503.7 billion, a 24 percent increase over FY 2009. The vast majority of this

increase is due to Credit Program Receivables. Credit Program Receivables increased by \$133.7 billion, a 57 percent increase over FY 2009. This increase is largely due to Direct Loan disbursements, as well as activity related to loan purchase commitments and loan participation purchases under the FFEL program. Much of this loan portfolio is principal and



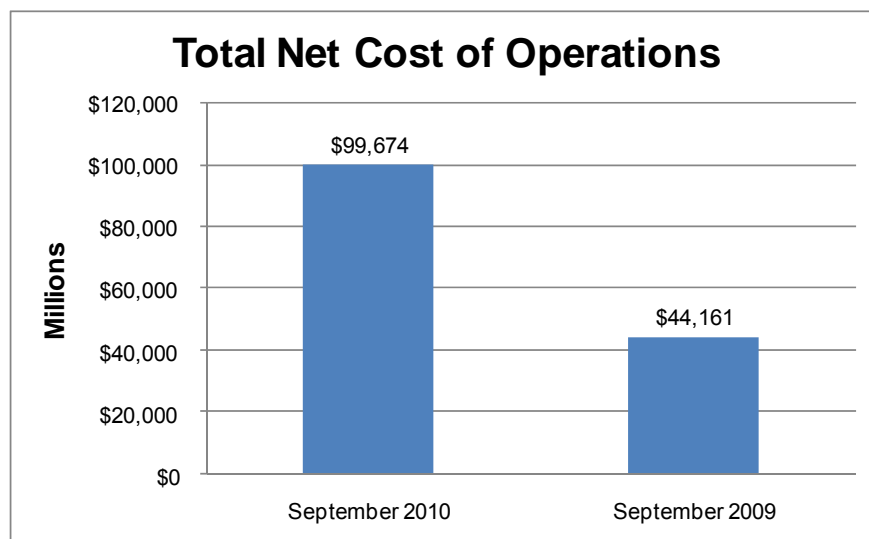
interest owed by students on Direct Loans. The remaining balance is related to defaulted guaranteed loans on which the Department paid reinsurance and which are now held by the Department and to loan purchase commitments and loan participation purchases under the FFEL Program as authorized by *ECASLA*. The net portfolio for Direct Loans increased \$75.4 billion due to Direct Loan disbursements net of borrower principal and interest collections. FFEL Program loans increased by \$57.9 billion during FY 2010, due primarily to loan volume and activity related to loan purchase commitments and loan participation purchases. The Fund Balance with Treasury decreased by \$35.8 billion, a 21 percent decrease from FY 2009. This decrease is largely due to *Recovery Act* disbursements during FY 2010.

Total Liabilities for the Department increased by \$137.2 billion, a 49 percent increase over FY 2009. The increase is the result of increased borrowing for the Direct Loan Program and to provide funds for the loan purchase commitments and loan participation purchases activities under the FFEL Program. Liabilities for Loan Guarantees for the FFEL Program decreased by \$6 billion, a 30 percent decrease that is primarily due to FFEL defaulted claims payments and the subsidy re-estimate. These liabilities present the estimated costs, on a present-value basis, of the net long-term cash outflows due to loan defaults net of offsetting fees.

The Department's Net Position as of September 30, 2010, was \$87.6 billion, a \$39.5 billion decrease from the \$127.1 billion Net Position as of September 30, 2009. This decrease is largely due to *Recovery Act* disbursements during FY 2010.

Statement of Net Cost. The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Department's total program net costs, as reflected on the Statement of Net Cost, page 32, were \$99.7 billion, a 126 percent increase from September 30, 2009. This change largely reflects the \$44 billion *Recovery Act* and Education Jobs Fund

disbursements and the \$23.6 billion reduction in negative subsidy related costs. These costs include downward modifications, downward re-estimates, and negative subsidy transfers. For FY 2010 re-estimated subsidy cost, Direct Loan subsidy cost was increased by \$4.7 billion and FFEL Guaranteed subsidy cost was reduced by \$12.7 billion. For 2009 re-estimated subsidy cost, Direct Loan subsidy cost was decreased by \$5.2 billion and FFEL Guaranteed subsidy cost was reduced by \$21.7 billion. The \$6 billion increase in earned revenue is primarily the result of interest revenue associated with a loan portfolio that was larger than in FY 2009.



The Statement of Net Cost is presented to be consistent with the Department's strategic goals. As required by the *Government Performance and Results Act of 1993*, each of the Department's Reporting Organizations has been aligned with the major goals presented in the Department's Strategic Plan 2007–2012.

Net Cost Program	Reporting Organizations/Groups	Strategic Goal
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement	Office of Federal Student Aid Office of Postsecondary Education Office of Vocational and Adult Education	3. Ensure the accessibility, affordability, and accountability of higher education, and better prepare students and adults for employment and future learning
Promote Academic Achievement in Elementary and Secondary Schools	Office of Elementary and Secondary Education Office of English Language Acquisition Office of Safe and Drug-Free Schools Hurricane Relief	1. Improve student achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014 2. Increase the academic achievement of all high school students
Transformation of Education	Institute of Education Sciences Office of Innovation and Improvement	1. Improve student achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014
Special Education	Office of Special Education and Rehabilitative Services	Cuts across Strategic Goals 1, 2, and 3
<i>American Recovery and Reinvestment Act</i> and Education Jobs Fund	<i>American Recovery and Reinvestment Act</i> Education Jobs Fund	Cuts across Strategic Goals 1, 2, and 3

Strategic Goals 1, 2, and 3 are sharply defined directives that guide the Department's reporting organizations to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these three strategic goals. The Department has a cross-goal strategy on management, which is considered a high-level premise on which the Department establishes its foundation for the three goals. As a result, we do not assign specific programs to the cross-goal strategy for presentation in the Statement of Net Cost.

Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. The statement displayed on page 34 shows that the Department had \$362.5 billion in total budgetary resources for the 12 months ended September 30, 2010. These budgetary resources were composed of \$130.4 billion in appropriated budgetary resources and \$232.1 billion in non-budgetary credit reform resources that primarily consist of borrowing authority for the loan programs. Of the \$22.2 billion that remained unobligated for the period ended September 30, 2010, \$17.7 billion represents funding provided in advance for activities in future periods that were not available at year end. These funds will become available during the next, or future, fiscal years.

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2010 and FY 2009, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations and ongoing operations are subject to the enactment of future appropriations.

Management's Assurances

Federal Managers' Financial Integrity Act

As required under the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*, the Department reviewed its internal control system. Internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are being achieved:

- Obligations and costs are in compliance with applicable laws.
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and maintain accountability over assets.
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Managers throughout the Department are responsible for ensuring that effective internal controls are implemented in their areas of responsibility. Individual assurance statements from senior management serve as the primary basis for the Department's assurance that the controls are adequate. The assurance statement provided on page 25 is the result of our annual assessment and is based upon each senior officer's evaluation of controls.

Offices within the Department that identify material weaknesses are required to submit plans for correcting the cited weaknesses. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving the Department's internal controls.

Inherent Limitations on the Effectiveness of Controls. Department management does not expect that our disclosure on controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can only provide reasonable—not absolute—assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints. The benefits of the controls must be considered relative to their associated cost. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Federal Financial Management Improvement Act

The Secretary has determined that the Department is in compliance with the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, although the auditors have identified instances in which the Department's financial management systems did not substantially comply with the Act.

The Department is cognizant of its auditor's concerns relating to instances of non-compliance with *FFMIA*, as noted in the Compliance with Laws and Regulations Report located on pages 97–99 of this report. The Department continues to strengthen and improve its financial management systems.

FFMIA requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under *FFMIA*, the financial management systems substantially comply with the three following requirements under *FFMIA*—federal financial management system requirements, applicable federal accounting standards, and the use of the U.S. Government Standard General Ledger at the transaction level.

Federal Managers' Financial Integrity Act

Management at the Department of Education is responsible for establishing and maintaining effective internal control and financial management systems that meet the intent and objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*. The Department conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department of Education can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2010, was operating effectively and no material weaknesses were found in the design or operations of the internal controls.

In addition, the Department conducted an assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of the Office of Management and Budget's Circular No. A-123. In accordance with the results of this assessment, the Department of Education can provide reasonable assurance that its internal control over financial reporting as of June 30, 2010, was operating effectively, and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

/s/

Arne Duncan
November 15, 2010